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ACTION EB-11

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SUBJ: COMMENTARY ON INCREASED TENNECO INVOLVEMENT IN ETHIOPIA

REF: ADDIS 774

SUMMARY: RECENT TENNECO DECISIONS TO SEEK COPPER CONCESSION IN ERITREA AND TO INVESTIGATE POSSIBILITIES FOR MARKETING OGADEN NATURAL GAS IN US INCREASE PROSPECTS FOR SUBSTANTIAL US INVESTMENT IN MOST SENSITIVE PARTS OF ETHIOPIA EVEN IN ABSENCE DISCOVERY OF COMMERCIAL QUANTITIES OF PETROLEUM. NEXT EIGHTEEN MONTHS SHOULD SHOW WHETHER OR NOT THESE DECISIONS RESULT IN INCREASED US INTEREST IN POLITICAL INTEGRITY AND MILITARY VIABILITY OF EMPIRE. END SUMMARY.

1. REFTEL DESCRIBED RECENT TENNECO DECISIONS TO APPLY FOR COPPER CONCESSION IN ERITREA AND TO EXPLORE POSSIBILITIES FOR MARKETING OGADEN NATURAL GAS IN US. FOLLOWING ARE EMBASSY COMMENTS ON IMPLICATIONS THESE DEVELOPMENTS FOR US-ETHIOPIAN RELATIONS.

2. BOTH DECISIONS APPEAR REFLECT SIGNIFICANT SHIFT IN TENNECO

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CORPORATE STRATEGY. PRIME TENNECO FOCUS HAS BEEN AND REMAINS

ON DISCOVERY OF COMMERCIAL QUANTITIES OF PETROLEUM IN ETHIOPIA. HOWEVER, PRIOR RECENT DECISIONS, TENNECO STRATEGY APPEARED TO BE GET OIL OR GET OUT. KEY ELEMENTS THIS STRATEGY INCLUDED FIXED BUDGETARY PROGRAMMING FOR EXPLORATION (I.E., REMAIN UNTIL OIL FOUND OR FUNDS SPENT) AND DECISION NOT RPT NOT USE CORPORATE FUNDS FOR NATURAL GAS DEVELOPMENT. INFORMAL CONCERN OCCASIONALLY EXPRESSED OVER NEED TO MAINTAIN POSSIBILITY FOR GRACEFUL WITHDRAWAL.

3. ALL THIS HAS NOW CHANGED. EVEN IF COMMERCIAL QUANTITIES OF PETROLEUM ARE NOT FOUND, TENNECO APPEARS WILLING RETAIN STAKE IN ETHIOPIA IF (1) COMMERCIAL SALE OF NATURAL GAS TO US AND/OR (2) COMMERCIAL EXPLOITATION OF COPPER PROVE FEASIBLE. MOREOVER, TENNECO APPEARS INTERESTED IN BRANCHING OUT INTO INDUSTRIES RELATED TO ABOVE TWO PROSPECTS ALTERNATIVE TO PETROLEUM (I.E., NATURAL GAS FEEDERSTOCK INDUSTRIES). AS UNUSUALLY DIVERSIFIED US COMPANY, TENNECO IS IN UNIQUE POSITION TO EXPAND RANGE ITS ETHIOPIAN ACTIVITIES. PREVIOUSLY, TENNECO REPS HAD INDICATED TENNECO WAS NOT PREPARED EXPAND ACTIVITIES IN ETHIOPIA IN ABSENCE COMMERCIAL PETROLEUM DISCOVERY.

4. THUS, FIRST CLEAR CONCLUSION FROM ABOVE IS THAT PROSPECTS FOR LONG-TERM SUBSTANTIAL US INVESTMENT IN ETHIOPIA HAVE SIGNIFICANTLY INCREASED.

5. SECOND MAJOR CONSIDERATION IS THAT TENNECO INVESTMENT IN NATURAL GAS PIPELINE OR COPPER DEVELOPMENT PROJECT WOULD MEAN DEEPER US COMMERCIAL INVOLVEMENT IN ERITREA AT LEAST PARTIALLY OFFSETTING DISENGAGEMENT INVOLVED IN KAGNEW PHASEDOWN. IMPLICATIONS FOR USG POLICY EXTEND FROM ISSUES OF MAINTAINING CONGEN IN ASMARA TO POTENTIAL INCREMENTAL INTEREST IN REFORMS NEEDED TO STRENGTHEN POLITICAL INTEGRITY AND MILITARY VIABILITY OF EMPIRE. PRESUMABLY WASHINGTON'S INTEREST IN INVESTMENTS INVOLVING PRODUCTION CRITICAL RAW MATERIAL FOR US MARKET WOULD BE GREATER THAN IF SALES WERE DIRECTED TO THIRD COUNTRIES.

6. THUS, SECOND CLEAR CONCLUSION FROM RECENT TENNECO DECISION IS THAT USG NOW FACES PROSPECTS FOR ENHANCED US INTERESTS IN MOST SENSITIVE AREAS OF EMPIRE EVEN IF PETROLEUM IS NOT RPT NOT DISCOVERED. IN EMBASSY VIEW, THESE FACTORS SHOULD STRENGTHEN USG
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STAKE IN ETHIOPIA AND IN TIMELY AND EFFECTIVE IEG MEASURES -- SOCIO-POLITICAL, ECONOMIC AND MILITARY -- TO DEAL CONSTRUCTIVELY WITH ERITREAN INSURGENCY AND ETHIO-SOMALI CONTENTIEUX. THIS ALL THE MORE NECESSARY GIVEN PROXIMITY GAS WELLS TO SOMALI BORDER, LOCATION COPPER CON-CESSION IN INSURGENT PROVINCE, AND RELATED INFRASTRUCTURE PROTECTION BURDENS WHICH FAILURE TO MAKE PROGRESS ON ERITREAN AND SOMALI DIFFICULTIES LIKELY PLACE ON REALIZATION OF IN-

VESTMENT POTENTIAL. ONE OBVIOUS QUESTION IN THAT CONTEXT IS POLITICAL POSSIBILITY OF CREATING SHARED ETHIO-SOMALI INTEREST BY MEANS OF GAS EXPORTS THROUGH MOGADISCIO. ON ETHIOPIAN SIDE OF BORDER, THIS OPTION CLEARLY DEPENDENT ON IEG AND CORPORATE ATTITUDES INCLUDING THEIR VIEW OF TRADE-OFF BETWEEN RISKS OF CHEAPER EXIT ROUTE THROUGH SOMALIA AND MOST COSTLY BUT LESS RISKY INTERNAL ROUTE ALSO PROVIDING POSSIBILITIES FOR TAP-LINE INDUSTRIES. TENNECO CHIEF HERE CONTINUES BELIEVE THAT, IF GAS RESERVES SUFFICIENTLY LARGE, BEST SOLUTION MIGHT BE CONSTRUCTION OF TWO PIPELINES, SECOND ONE SERVING AS AN INSURANCE POLICY AGAINST SOMALI DISRUPTION.

7. HOWEVER, EMBASSY WOULD STRESS THAT ABOVE CONCLUSIONS BECOME OPERATIVE ONLY IF TENNECO CONFIRMS COMMERCIAL QUANTITIES OF NATURAL GAS IN OGADEN AND/OR OBTAINS COPPER CONCESSION IN ERITREA SUBSEQUENTLY PERMITTING LONG-TERM COMMERCIALLY VIABLE EXPLOITATION. IN THIS REGARD, NEXT 18 MONTHS SHOULD TELL STORY. ADAIR

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